

MEMO

DATE: November 14, 2005

TO: Community, Economic and Human Development Committee

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SUBJECT: **Regional Comprehensive Plan – Economy Chapter**

SUMMARY:

The current draft *Economy Chapter* of the Regional Comprehensive Plan and Guide represents the fourth stage in the development of this chapter. In its initial stage staff presented a matrix titled “SCAG Economic Policy Statements and Recommendations for Revision,” which contained a list culled from four key SCAG documents: the Economy Chapter of the 1996 RCP&G, the 2004 RTP, Southern California Compass, and the “Southern California Regional Strategy for Goods Movement: A Plan for Action” (March 2005). These two stages, first and last, are attached for your information. Staff will give a brief resume of the steps that led to the fourth version and explain the differences between it and the starting point.

In the second round, the draft chapter received an entirely new “Overarching Theme Statement” drafted entirely by the Task Force. The initial list of policy statements and recommendations submitted by staff to the Task Force was amended and added to in the second and two subsequent rounds.

As requested by the RCP Task Force at its August and October meetings, this new draft is based in part on the discussions of a sub-group of Task Force members which convened at SCAG on September 22, and represents a consensus of that group. The present version incorporates all edits and changes made by the Task Force to date. In addition, also in response to the Task Force’s direction, this version eliminates the matrix used up until now to present SCAG economic policies and puts the revised and added policy statements into text form. Finally, the Task Force decided, at their October meeting, to drop the “. . .and Education” portion of the chapter’s title, changing it from “Economy and Education Chapter” to the *Economy Chapter* of the Regional Comprehensive Plan and Guide.

SCAG Economic Policy Statements and Recommendations for Revision

Based on the Economy Chapter of the 1996 RCP&G, the 2004 RTP, Southern California Compass, and the "Southern California Regional Strategy for Goods Movement: A Plan for Action" (March 2005)

April 2005

Regional Comprehensive Plan Task Force

RCP&G Economy Chapter Overarching Theme Statement:

A new economy forces a new set of public and private sector assumptions and priorities. . . . a new economic model must be developed that positions both business and government to be profitable and competitive regionally, nationally and internationally. Within this new economic paradigm growth and wealth creation will be measured . . . in terms of human resources, the skill levels of regional workers, and the pipeline of future workers. For this reason, public and private sector organizations and regions must think strategically as they develop plans for their future. The foundation for such a model is to identify and capitalize on competitive advantages found within Southern California's business, government and educational institutions and create a complementary infrastructure. (Emphasis added).

	Policy Statement	Recommended Change or Comment
1	(Under "Regional Economic Goals") Income targets for 2020 should be phrased in terms of desired growth rates of real income, . . .	None
2	The region's gains in economic prosperity (should be) shared broadly by residents throughout the region.	None
3	. . . attracting, retaining and training a diverse labor force has become an increasingly important objective for regional economies.	More emphasis needs to be put on this point given the low level of educational achievement of much of our work force and working age youth. Note the overarching theme statement's reference (above) to the quality of the region's work force.
4	Regional policy makers need to be concerned with five major categories of competitive resources: a. A competitive work force b. Efficient infrastructure c. Quality of life d. The "business climate" e. Business leadership	
5	For the region to remain globally competitive . . . significant new investment will be required to expand capacity in order to benefit from the strong growth in international trade expected . . .	
6	Governments and private sector organizations must develop global trade logistics infrastructure support facilities that will help local businesses remain competitive and assist the region in attracting foreign investment.	
7	Quality of life includes environmental amenities, adequate resources to combat crime, cultural resources, affordable housing, and efficient transportation systems.	
8	Rules and regulations are a factor in business location . . . Southern California cannot ignore the implications of permit processes on location decisions.	
9	The new economy makes impractical and inappropriate the old hierarchical, big company-dominated (leadership) structures of the past. It will require a new kind of business leadership—drawing from the region's increasingly diverse economic and demographic base.	

10	The region must increase its share of employment in those industries and service sectors where wages and salaries will be higher than average and where growth nationwide and internationally is expected to be strong. The emerging information-driven industries represent the fast-growth, high-wage arenas that will define the nation's economic future.	
11	A state-of-the-art strategy to energize basic industry will require collaboration and cooperation through industrial clusters . . . The first step is to increase awareness of both the private and the public sector in the region as to what efforts are already under way supporting industry cluster formation.	
12	Public investment is necessary to attract private investment, as well as to maintain and improve the quality of life. The ability to attract workers and firms is dependent upon critical infrastructure investment that can create good schools, mitigate congestion and crime problems, and create world class recreational opportunities.	
13	. . . fundamental fiscal reform at the state and local level will be required in order to meet the capital investment requirements of the region's economy. The paramount importance local government accords sales tax revenue places a premium on tax-generating retail business rather than on wealth-generating basic industry.	Primarily <u>State</u> fiscal reform, including curbing state government's ability to hijack local school and transportation funds. At the local level, de-emphasis of sales tax is needed.
14	It is the responsibility of SCAG and other regional organizations, in cooperation with regional businesses, to achieve buy-in at the subregional, city, and county levels to the need for expanding the region's economic base. City management and . . . local elected officials must become active partners in the regional economic strategy.	

Relationship of the 2004 Regional Transportation Plan to RCP Economic Policy

"The 2004 RTP boosts regional employment economic vitality through transportation infrastructure investments funded through the private sector and backed by user fees . . . This regional strategy, if successful, will become a powerful economic development tool that will generate jobs, increase per capita wealth and restore economic competitiveness and social equity. In the long run, private sector infrastructure investments can revitalize the SCAG Region's economy and enhance its global economic position. . . Moreover, the economic benefits from private investments of this magnitude will not be confined to the SCAG Region; positive State and national economic impacts will also be generated."

15	Adjust the fuel excise tax rate to maintain historical purchasing power. Further, maximize fuel tax revenue through pay-as-you-go and debt financing.	
16	Pursue user-fee supported project financing for major regional investments where applicable.	

Economic Policy Measures Advocated in the Southern California Goods Movement Policy Paper

One-third of all waterborne freight container traffic at U.S. ports is handled by the Ports of Los Angeles and Long Beach. Fifty to seventy percent of the freight coming into these two ports is headed for destinations outside the region . . . Southern California provides these services to the nation while enduring substantial local burdens, including traffic congestion, air pollution, noise, public health impacts, visual blight, and freight-related safety incidents. These burdens are not compensated, thus forming an effective subsidy for lower-priced goods in other states . . . The national purpose served by Southern California's goods movement system points to the need for strong federal assistance in addressing the problem.

17	The federal government should explore ways to compensate the region for the services it provides, and should take legislative action to allow the region to pursue innovative funding strategies to build the needed infrastructure.	
18	Improvements to the goods movement system should not come at the expense of other transportation system investments . . . Other sources of public and private funds must be tapped (homeland security, environmental protection, defense funds, user fees, and growth in customs fees, among others).	
19	Both the Federal and State governments must act to support innovative procurement and public-private funding mechanisms.	
20	Again, given current limits on local and state finances, innovative methods will be needed to procure and pay for these system improvements. Policy makers have the responsibility to enhance innovative financing opportunities so that public funds can better support critical goods movement projects	The reader is referred to the Goods Movement Policy Paper for a list of innovative financing arrangements that involve local borrowers and the state and federal governments. While these are not strictly economic policy measures they are included here because they involve financial activities that are related.
21	Three types of initiatives are currently being implemented by public and private sector goods movement stakeholders in southern California: <ul style="list-style-type: none"> • Operating enhancements • Environmental mitigations/enhancements, and • System/physical enhancements. Each category includes both short-term actions – generally, those that will have an effect immediately, or within about the next five years – and longer-term actions.	There follows a long list of actions being undertaken or to be undertaken to enhance the efficiency of the region's goods movement sector while at the same time reducing its negative side effects. As these are not strictly economic policy measures, we refer the reader to SCAG's Goods Movement Policy Paper for details.

Southern California Compass: Growth Visioning and Economic Policy

Among the various strategies and principles for managing growth crafted by the Growth Visioning Subcommittee the ones most relevant to economic policy are Mobility and Prosperity. Much of what the Compass project has to say in these areas has already been covered in the sections above, but it may be worthwhile to rephrase it in Growth Visioning terms.

22	Under "Mobility" the following recommendations appear: <ul style="list-style-type: none"> • Encourage transportation investments and land use decisions that are mutually supportive. • Locate new housing near existing jobs and new jobs near existing housing. 	
23	The "Prosperity" Principle is stated as "Enable Prosperity for all people", virtually the same as Policy Statement 2, above, from the Economy chapter of the RCP&G. Under this Principle we find: <ul style="list-style-type: none"> • Provide in each community a variety of housing types to meet the needs of all income levels. • Support local and state fiscal policies that encourage balanced growth. 	

DRAFT ECONOMY CHAPTER¹

September 2005

Regional Comprehensive Plan Task Force

Overarching Theme Statement

A bold new strategy is needed -- based upon the Growth Visioning/Compass principles of livability, prosperity and sustainability -- to promote a healthy, flourishing economy for the SCAG region.

As part of this strategy, policies must be developed that

- *enable* business to be profitable and competitive (regionally, nationally and internationally),
- *ensure* sufficient employment and income levels to alleviate poverty and meet basic needs, and
- *accomplish* this within an ecological context that uses resources wisely and sustainably.

The region's economic viability and attractiveness depend upon mutually supportive land use decisions, transportation investments, and educational improvements, including

- focusing development in urban centers, existing cities and along (existing and future) transportation corridors,
- providing housing to meet the needs of all income levels,
- locating new housing near existing jobs and new jobs near existing housing,
- designing/building 'green' to save resources, reduce costs and increase competitiveness
- doing this while ensuring environmental justice
- developing a well-educated work force, and
- fiscal and governmental policies that support these approaches.

Such a strategic vision will only succeed if government, the private sector, non-profit organizations and the region's residents all embrace it. Only with the

¹Based on the Revised Economy Chapter of the 1996 RCP&G, the 2004 RTP, Southern California Compass, and the "Southern California Regional Strategy for Goods Movement: A Plan for Action" (March 2005)

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participation and cooperation of all the region's stakeholders will this vision be realized.

REVISED ECONOMIC POLICY STATEMENTS

Principles

1. Income targets should be phrased in terms of desired levels of real per capita income (personal and household), average payroll per job, and meeting basic needs. To accomplish this, the region's economy must provide a wide range of employment opportunities.
2. Governmental regulations and incentives should – as an overall approach -- reward ingenuity, initiative, enterprise, and creativity, and promote (or at least not hinder) needed economic development.
3. The region's economy should be diverse enough to promote sustained economic health, by not being overly dependent upon a small number of industries or types of businesses.
4. Fiscal and tax systems should be broad enough to protect against over-dependence upon a limited number of income streams.
5. The region's economic prosperity should be shared broadly by residents throughout the region, at the same time that individual initiative is rewarded. Environmental health and economic prosperity should go hand in hand.

Regional Economic Goals

- a. A competitive work force
- b. Trade, infrastructure and investment
- c. Business Climate and Working Conditions
- d. Economic Diversity, Self-Reliance and Business Leadership
- e. Fiscal Reform
- f. Cooperation Among Stakeholders

Strategies

a) Competitive Work Force

Attracting, retaining, educating and training a diverse, skilled labor force has become an increasingly important objective for regional economies. The ability to attract workers (and firms) is dependent upon the livability and quality of life of a

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region, its business climate, and working conditions. Investments in these areas are critical for the SCAG region.

Given the relatively low level of educational achievement of much of the region's labor force, including working age youth, a major priority is to significantly improve the region's educational system.

Linking transportation investments and land use decisions is also a major priority; in order to make the connection between quality of life and attracting/retaining skilled workers and quality firms.

b) Trade, Infrastructure and Investment

International trade can create good job opportunities and raise real income levels for the SCAG region. To benefit from the growth in international trade expected, while remaining globally competitive, significant investment is necessary to improve the efficiency and expand the capacity of the region's goods movement infrastructure. Such changes must also occur within a context of environmental quality, environmental justice and respect for local communities.

Needed improvements in the region's goods movement infrastructure depend upon cooperation between government and the private sector. Public investment and planning can play a strong role in attracting needed additional private investment.

At the same time, improvements to the goods movement system should not come at the expense of other transportation system investments, nor should they only be the burden of local, regional or state government.

Given current limits on local and state finances, innovative methods will be needed to procure and pay for these system improvements. Both the Federal and State governments must act to support innovative procurement and public-private funding mechanisms, and should take legislative action to allow the region to pursue innovative funding strategies. Such strategies could include, for example, *tax-exempt private activity bonds* for goods movement facilities, *tax-credit bonds* for goods movement infrastructure, and *user/beneficiary fees*.

The national purpose served by Southern California's goods movement system also points to the need for strong federal participation in assisting the region with the substantial local burdens it bears in serving this role - including traffic congestion, air pollution, noise, public health impacts, visual blight, and freight-related safety incidents. These burdens are not compensated, thus effectively

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subsidizing the sale of goods at lower prices in other states. The federal government should explore ways to compensate the region for the services it provides.

c) Business Climate and Working Conditions

In addition to infrastructure improvements, the effects of governmental rules and regulations are also a factor in business location and retention. Economic regulations and incentives should promote (or at least not hinder) needed economic development. State and local government must have flexibility to attract needed businesses and jobs into the community.

d) Economic Diversity, Self-Reliance and Business Leadership

The region must increase its share of employment in those industries and service sectors where wages and salaries will be higher than average and where growth, nationwide and internationally, is expected to be strong, as in many of today's information-oriented industries. It should also include industries with a defined career ladder that do not necessarily require advanced education (e.g., logistics). FedEx and UPS are examples of this type of industry

At the same time that it pursues growth in these sectors, the region must maintain a sufficiently diverse economic base overall, so as protect against over-dependence upon any few industries or income streams.

The Compass 2% Strategy will help locate jobs and housing near each other in mixed use communities along transportation corridors, in so doing addressing needs locally and helping communities shape their own economic futures.

This economic model must draw increasingly upon leadership from small and medium-size businesses and the region's diverse demographic base.

Everyone who participates in the economy should be able to meet his or her basic needs on a sustained basis for the common good. The new model should include jobs designed to meet environmental goals.

A state-of-the-art strategy to energize basic industry will also require collaboration and cooperation through industrial clusters.² The first step is to increase awareness

² Every location, whether it is a nation, a community, or a region, has a unique set of local conditions that underpin the ability of firms based there to compete in a particular field. The competitive advantage of a location does not usually arise in individual companies but in *clusters* of companies—in other words in groups of companies that are in the same

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of both the private and the public sector in the region as to what efforts are already under way supporting industry cluster formation.

e) Fiscal Reform

Fundamental fiscal reform at the state, county and local level -- involving sales, property and income taxes -- will be required in order to meet the region's capital investment needs of the region's economy.

Since many of these changes will happen with the cooperation of local government, state fiscal reform -- including curbing state governments' ability to hijack local school and transportation funds -- is most urgent. At the local level, de-emphasis of the dependence upon sales tax revenue is needed. Overall, the tax system should be diverse enough to protect against over-reliance upon any small number of revenue streams.

f) Cooperation Among Stakeholders

SCAG and its subregional partners must facilitate buy-in to the need to expand the region's economic base to accomplish these goals. To this end, cities, counties, and other government agencies must become active partners in this process.

industry or otherwise linked together through customer, supplier, or similar relationships. As in other regions, there are a number of industry clusters in the SCAG region, each possessing unique elements that contribute to the region's economic competitiveness. The fashion industry, the entertainment/multimedia complex, and the biomedical industry are a few examples. See *New Solutions for a New Economic Environment*, The Economy Chapter, RCP&G (SCAG, 2000), pp. 40-41 for more on clusters.